

Message Text

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ACTION NEA-10

INFO OCT-01 EUR-12 ISO-00 CIAE-00 EB-07 INR-07 LAB-04

NSAE-00 SIL-01 L-03 H-02 PA-02 PRS-01 FEA-01

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R 100925Z JUL 77

FM AMCONSUL DHAHRAN

TO SECSTATE WASHDC 5546

INFO USDOC WASHDC

AMEMBASSY ABU DHABI

AMEMBASSY AMMAN

AMEMBASSY ATHENS

AMEMBASSY CAIRO

AMEMBASSY DOHA

AMEMBASSY JIDDA

AMEMBASSY KUWAIT

AMEMBASSY MANAMA

AMEMBASSY MUSCAT

AMEMBASSY TEHRAN

USINT BAGHDAD

USLO RIYADH

UNCLAS SECTION 1 OF 2 DHAHRAN 0793/1

E.O. 11652: N/A

TAGS: ELAB, EGEN, BGEN, CFED, XF, SA

SUBJECT: US TAX LAWS MEAN SIGNIFICANTLY FEWER NEW JOBS FOR AMCITS --
ONE STRIKING EXAMPLE

REF: JIDDA 4759 (NOTAL)

1. (SUMMARY) ARAMCO, AFTER CONSIDERABLE RESEARCH, HAS
DECIDED TO HIRE MANY FEWER AMERICANS TO FILL FUTURE JOB
OPENINGS THAN IT HAD PLANNED BEFORE PASSAGE OF THE 1976
TAX REFORM ACT AND RECENT IRS DETERMINATION TO IMPUTE, AS
INCOME, VALUE OF HOUSING AND LOCAL EDUCATION PROVIDED TO
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DEPENDENTS. THESE ACTIONS WILL INCREASE COST OF TYPICAL
U.S. EMPLOYEE TO ARAMCO TO US \$80,500 PER YEAR, FROM CURRENT
US \$50,000. A COMPARABLE CANADIAN, WITH THE SAME SKILLS, COSTS
US \$46,500 AND A BRITISHER, US \$36,000. LIKE MANY U.S. COMPANIES
IN THE CONSULAR DISTRICT, STANDING ARAMCO POLICY OBLIGATES IT
TO PAY THE ADDITIONAL U.S. INCOME TAXES LEVIED. HOWEVER, MOST
NEW JOBS -- AND MANY ARE FORECAST OVER THE NEXT THREE YEARS --

WILL GO TO NON-AMERICANS. CLEARLY, AMERICANS, WHO ARE VIRTUALLY THE ONLY NATIONALITY TAXED ON OVERSEAS EARNINGS, ARE PRICED OUT OF THE SAUDI LABOR MARKET. (END SUMMARY)

2. STATISTICAL INFORMATION ON ARAMCO AMERICAN PERSONNEL PROVIDED IN REFTEL IS GROSSLY EXAGGERATED. CONSLUSIONS CITED IN REFTEL, AS PROVIDED BY EMBASSY JIDDA'S SOURCE OF INFORMATION, DISTORT IMPACT OF US INCOME TAX LAWS ON AMCITS WHO WORK FOR ARAMCO. HEART OF QUESTION RELATES TO SUGGESTION THAT ARMACO'S REPORTED CURRENT 16 PERCENT (WHICH IS ACTUALLY ABOUT 10 PERCENT) TURNOVER IN AMERICAN PERSONNEL IS ATTRIBUTED TO IMPACT OF CURRENT US INCOME TAX LAWS, AND THAT THE COMPANY, FOR THE SAME REASON, IS ANTICIPATING 50 PERCENT LOSS OF U.S. PERSONNEL BY 1980. THIS INFORMATION IS NOT CORRECT. ALTHOUGH COMPANY ANTICIPATES SOME INCREASE IN TURNOVER RATE, TOTAL NUMBER OF AMCITS IN WORKFORCE WILL INCREASE, THOUGH AT FAR LOWER RATE THAN PREVIOUSLY PLANNED AND TOTAL PROPORTION OF AMCITS WILL FALL.

3. POST HAS TAKEN CONSIDERABLE INTEREST IN ARAMCO'S AMERICAN STAFFING PROBLEM AS BREWED BY 1976 TAX REFORM ACT BECAUSE THE OIL COMPANY IS LARGEST EMPLOYER OF AMERICANS IN CONSULAR DISTRICT. ITS EMPLOYMENT POLICIES RIPPLE THROUGH ENTIRE AMERICAN BUSINESS COMMUNITY SINCE ARAMCO IS SUPPLIED WITH SERVICES BY MANY AMERICAN COMPANIES. ARAMCO HAS ALWAYS HAD "POLICY OF MAINTAINING ITS EMPLOYEES WHOLE, NO MATTER WHAT HAPPENS" IN RESPECT TO UNCLASSIFIED

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EMPLOYEE TAKE-HOME PAY. CONSEQUENTLY WITH PASSAGE OF NEW US TAX LAW, SALARIES OF ITS AMERICAN EMPLOYEES WERE TOPPED OFF TO COVER ADDED TAX LIABILITY. THIS HAS BEEN KNOWN FOR MONTHS AND, CONSEQUENTLY, RATE OF TURNOVER OF AMERICAN PERSONNEL IS LINKED NOT TO CHANGES IN US TAX LAWS BUT TO A SHARP INCREASE IN THE RECRUITMENT OF AMERICAN MANPOWER, BEGINNING IN 1974, TO STAFF ARAMCO'S MASSIVE EXPANSION PROGRAM AS IT BEGAN TO MOVE INTO HIGH GEAR. MANY NEW, YOUNGER EMPLOYEES DID NOT SIGN UP WITH THE IDEA OF MAKING A CAREER WITH ARAMCO WHILE OTHERS (OR THEIR FAMILIES) FOUND CLIMATE TOO HARSH AND LIVING CONDITIONS UNSUITABLE AND DECIDED NOT TO RENEW THEIR ARAMCO CONTRACTS. WHILE IT IS TRUE THAT SEVERAL HUNDRED TECHNICAL AND ADMINISTRATIVE POSITIONS ARE CURRENTLY VACANT, MANY OF THESE VACANCIES ARE CONSIDERED BY COMPANY "AS A FUNCTION OF HOUSING." HOUSING SUPPLY IS TIGHT AT ALL ARAMCO CAMPS AND PATTERN HAS BEEN NOT TO BRING OVER NEW DIRECT-HIRE AMERICAN EMPLOYEES UNTIL SUITABLE QUARTERS CAN BE PROVIDED. MOREOVER, RECRUITMENT OF REPLACEMENTS REQUIRES LONG LEAD TIMES AND COMPANY CANNOT ALWAYS PROCESS AND BRING OUT NEW RECRUITS AS QUICKLY AS POSITIONS FALL OPEN -- PARTICULARLY WHEN POSITION TO BE FILLED REQUIRES AN EMPLOYEE WITH YEARS OF EXPERIENCE.

4. THE IMPACT OF US INCOME TAXES ON ARAMCO RELATES TO FUTURE RATHER THAN TO THE PAST. AS POST HAS REPORTED ELSEWHERE, ARAMCO HAS DISCOVERED THAT IT CAN HIRE 2.3 - 2.7 BRITISHERS FOR PRICE OF ONE AMERICAN (DEPENDING ON THE GRADE LEVEL) SINCE BRITISH SALARY SCALES ARE GENERALLY LOWER AND THEY PAY NO INCOME TAXES ON FOREIGN SOURCE EARNINGS. IMPACT OF U.S. TAX FACTOR HAS HAD IMMEASURABLE IMPACT ON OIL COMPANY'S SENIOR MANAGEMENT AND, WITH GREAT RELUCTANCE, IT HAS BEEN FACED WITH REALITY THAT HIRING NON-AMERICAN WHERE-EVER POSSIBLE IS ONE WAY OF CUTTING COSTS OF ITS HIGH-COST OPERATION. ARAMCO CHAIRMAN, END OF JUNE, TOLD CONSUL GENERAL THAT COMPANY IS IMPLEMENTING NEW PROGRAM TO HIRE LARGE NUMBER OF CANADIANS IN NEXT 18 MONTHS SINCE (A) THEY KNOW THE OIL INDUSTRY LIKE THEIR AMERICAN COUNTERPARTS AND (B)

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THEY HAVE NOT TAX LIABILITY TO OTTAWA FOR FOREIGN SOURCE EARNINGS WHEN THEY RESIDE OVERSEAS. COMPANY PERSONNEL MANAGERS HAVE COSTED OUT CANADIAN AND BRITISH VS AMERICAN STAFFING (SHOWN AS DIRECT US\$ COSTS) AND POST HAS OBTAINED THE RESULTS OF THEIR CALCULATIONS, PREPARED FOR ILLUSTRATIVE PURPOSES, IN FOLLOWING TABLE (ALL FIGURES GIVEN IN US\$):

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ACTION NEA-10

INFO OCT-01 EUR-12 ISO-00 CIAE-00 EB-07 INR-07 LAB-04
NSAE-00 SIL-01 L-03 H-02 PA-02 PRS-01 FEA-01
SS-15 NSC-05 TRSE-00 /071 W
-----001638 110536Z /10

R 100925Z JUL 77 ZDK
FM AMCONSUL DHAHRAN
TO SECSTATE WASHDC 5547
INFO USDOC WASHDC
AMEMBASSY ABU DHABI
AMEMBASSY AMMAN
AMEMBASSY ATHENS
AMEMBASSY CAIRO
AMEMBASSY DOHA

AMEMBASSY JIDDA
AMEMBASSY KUWAIT
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AMERICAN CANADIAN BRITISHER

TYPICAL SALARY OF ENGINEER
(ASSUMED TO BE MARRIED AND
WITH 3 SCHOOL-AGE CHILDREN) 24,000 24,000 10,300

GROSS COMPENSATION -- INCLUDES
ALL DIRECT FORMS OF COMPEN-
SATION (INCLUDING, FOR AMCITS,
TAXES UNDER PREVIOUS US TAX LAW) 49,500 56,500 35,900

COMPENSATION PLUS TAX LIABILITY
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UNDER CURRENT TAX LAW (BUT WITH-
OUT IMPUTED INCOME) 61,900 -- --

COMPENSATION PLUS TOTAL TAX
LIABILITY UNDER CURRENT TAX
LAW (INCLUDING IMPUTED INCOME) 80,500 -- --

TOTAL COST OF TYPICAL EMPLOYEE
TO ARAMCO IN US\$ 80,500 46,500 35,900

AFTER STUDYING FIGURES PROVIDE ABOVE, IT IS NOT SURPRISING
THAT ARAMCO HAS DECIDED TO OPEN RECRUITING OFFICE IN CANADA TO
HIRE CANADIANS TO FILL MANY NEW OPENINGS. ARAMCO HAS IDENTIFIED
600-1,000 TECHNICAL OR MIDDLE MANAGEMENT POSITIONS FOR WHICH
IT HAS DECIDED TO RECRUIT CANADIANS AND BRITISHERS. UNTIL
PASSAGE OF U.S. 1976 TAX LAWS, ONE ARAMCO EXECUTIVE EXPLAINS,
"WE WOULD HAVE RECRUITED THESE PEOPLE IN THE U.S.".

5. IT APPEARS THAT RECENTLY-ANNOUNCED INTENTION OF US INTERNAL
REVENUE SERVICE TO TAX ARAMCO SUPPLIED HOUSING ON BASIS OF LOCAL
HOUSE RENTALS AND LOCAL DEPENDENT EDUCATION ON BASIS OF ACTUAL
COSTS HAVE ADDED OTHER ELEMENTS IN CHEMISTRY OF ARAMCO'S
DECISION TO CURTAIL RECRUITMENT OF MANY AMERICANS AND FILL
THESE VACANCIES WITH NON-AMERICANS. ARAMCO HAS ALWAYS
PROVIDED EMPLOYEE HOUSING (RENTED TO EACH ARAMCON AT A
RATE EQUAL TO MARKET VALUE OF COMPARABLE HOUSING IN US)

TOGETHER WITH LOCAL SCHOOLING THROUGH GRADE NINE, AS
CONDITIONS OF EMPLOYMENT. IRS REPRESENTATIVE TEHRAN HAS
INFORMED ARAMCO THAT SERVICE IS NO LONGER WILLING TO ACCEPT
THESE TWO ITEMS AS NON-TAXABLE FOR PURPOSES OF COMPUTING
AMCITS' INCOME TAX AND THAT MEANS, ACCORDING TO ARAMCO
CALCULATIONS, A DIRECT COST TO THE COMPANY OF \$18,000 TO
COMPESATE TYPICAL AMCIT EMPLOYEE FOR SUCH ADDED TAX LIABILITY
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TO IRS.

6. ESTIMATE REPORETED IN REFTEL THAT ARAMCO WILL HAVE 9,000
NEW JOB OPENINGS BY 1980 IS HEARD IN HALLS OF ARAMCO BUT OUR
INFORMATION INDICATES THAT ESTIMATE MAY BE ON LOW SIDE. ARAMCO
PLANS TO FILL AS MANY NEW OPENINGS WITH SAUDIS AS POSSIBLE, BUT,
COMPANY RECOGNIZES THAT GOAL IS UNLIKELY TO BE ACHIEVED GIVEN
THE MANPOWER SHORTAGE IN COUNTRY. CONSEQUENTLY NEW POSITIONS,
WHICH WILL REPRESENT SUBSTANTIAL INCREASE IN ARAMCO'S WORKFORCE,
WILL BE FILLED ON A WORLD-WIDE BASIS -- BASICALLY ASIAN AND
OTHER ARABS. AS A DIRECT CONSEQUENCE OF US TAX LAWS, THE
PERCENTAGE OF AMERICANS IN ARAMCO'S RAPIDLY GROWING WORKFORCE
IS EXPECTED TO DECLINE BY 25 PERCENT OVER THE NEXT THREE YEARS.

7. COMMENT: THE IMPORT OF FOREGOING IS REPRESENTATIVE OF WHAT
WE SEE ELSEWHERE IN CONSULAR DISTRICT. COMPANIES THAT
HAVE EMPLOYED AMERICANS FOR ANY LENGTH OF TIME FEEL
OBLIGATED TO MAINTAIN THEIR TAKE-HOME PAY LEVELS AND THEY,
NOT THE EMPLOYEES, WILL PAY THE INCREASED TAX LIABILITY INDUCED
BY RECENT US TAX LEGISLATION. IF COMPANIES ARE FORECED BY
US TO REDUCE THE AMERICAN COMPONENT IN THEIR WORK FORCE IN
ORDER TO REMAIN COMPETITIVE, IT ADDS TO UNEMPLOYMENT AT
HOME, REDUCES THE FAVORABLE BALANCE OF PAYMENT IMPACT OF
REPATRIATED EARNINGS TO US, AND COUNTERBALANCES ANY INCREASE
IN TAX REVENUES PREDICTED BY SPPORTER OF US TAX LAWS WHEN THE
1976 TAX BILL WAS PASSED. IF THE AMERICAN EMPLOYEE IS ASKED
TO ABSORB EVEN PART OF THE IMPACT OF RECENT TAX INCREASES ON
OVERSEAS EARNINGS, AS BECHTEL HAS DISCOVERED, HE SEE NO INCENTIVE
TO MOVE FROM SAN FRANCISCO TO SAUDI ARABIA. NEWER COMPANIES,
PARTICULARLY THOSE WHO EMPLOY BLUE-COLLAR WORKERS, HAVE MORE
TO LOSE BY TOPPING OFF THEIR AMERICAN SALARIES. THEY SIMPLY DO
NOTE RENEW THE CONTRACTS OF MANY AMERICAN EMPLOYEES AND QUICKLY
RECRUITE OTHER NATIONALITIES AS REPLACEMENTS. IN GENERAL, IT
ALL WORKS OUT THE SAME. RECRUITS FOR NEWLY-CREATED JOBS AND
REPLACEMENTS FOR DEPARTING EMPLOYEES, HENCEFORTH, WILL BE FOUND
IN LABOR MARKETS OUTSIDE THE US. CONSEQUENTLY THE IRONY OF
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ANY THOROUGH ATTEMPT TO DETERMINE THE FULL IMPACT OF RECENTLY-
ENACTED US TAX LAWS ON AMERICAN WORKING OVERSEAS:THE DAMAGE CANNOT
BE ACCURATELY MEASURED UNTIL MANY YEARS FROM NOW -- OR AFTER IT
WILL BE MUCH TOO LATE.
BUSHNELL

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Message Attributes

Automatic Decaptioning: X
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Current Classification: UNCLASSIFIED
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Decaption Date: 01-Jan-1960 12:00:00 am
Decaption Note:
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Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment:
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Disposition Event:
Disposition History: n/a
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Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 1910674
Secure: OPEN
Status: NATIVE
Subject: US TAX LAWS MEAN SIGNIFICANTLY FEWER NEW JOBS FOR AMCITS -- ONE STRIKING EXAMPLE
TAGS: ELAB, EGEN, BGEN, CFED, XF, SA, US
To: STATE
Type: TE
vdkgvwkey: odhc://SAS/SAS.dbo.SAS_Docs/bf3cf96d-c288-dd11-92da-001cc4696bcc
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